

ORIGINAL

OPEN MEETING



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MEMORANDUM

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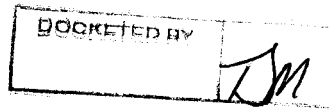
Arizona Corporation Commission

DOCKETED

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AUG 31 2012

AZ CORP COMMISSION  
DOCKET CONTROL



TO: THE COMMISSION

FROM: Utilities Division

DATE: August 31, 2012

RE: JOHNSON UTILITIES, L.L.C., DBA JOHNSON UTILITIES COMPANY - FOR APPROVAL OF A NEW NON-POTABLE WATER TARIFF (DOCKET NO. WS-02987A-12-0350)

**I. Introduction**

Johnson Utilities, L.L.C., dba Johnson Utilities Company ("Company") filed an application on August 2, 2012, with the Arizona Corporation Commission ("Commission") requesting approval of a new non-potable water tariff. The new tariff will enable the Company to provide non-potable water service in limited areas within its certificated area. The general limitations for service under this tariff are: 1) the Company has an operating non-potable water well in reasonable proximity to the customer's requested point of delivery, 2) the Company has legal access to install the facilities necessary to convey non-potable water from the withdrawal well to the point of delivery, and 3) the Company has sufficient available and uncommitted capacity in the withdrawal well to deliver the requested non-potable water to the customer.

The proposed charges will include the monthly minimum charge based on the meter size, plus a commodity charge that will be \$0.84 per thousand gallons or \$273.71 per acre foot, plus a Central Arizona Groundwater Replenishment District ("CAGRDR") tax assessment per thousand gallons, and other applicable taxes and assessments.

The Company's current CAGRDR fees are \$0.84 per thousand gallons in the Phoenix Active Management Area ("AMA") and \$0.21 per thousand gallons in the Pinal AMA. The Company makes an annual filing with the Commission to update the CAGRDR fee. Staff estimates that the next increase adjustment (due in October 2012) should be about ten percent higher.

**II. Background**

The Company had been purchasing non-potable excess Central Arizona Project ("CAP") water and offering it for sale under its current Non-Potable CAP Water Service Tariff. The Company has already taken its entire excess non-potable CAP water allotment for this year and the CAP has advised the Company that it will no longer offer excess CAP water for sale after

December 31, 2012. This current tariff commodity rate is \$0.84 per thousand gallons, but there is no CAGR fee chargeable as the water is not withdrawn from wells.

The Company has only one customer currently taking service under the non-potable CAP water service tariff. It is a non-profit homeowners' association located in the Phoenix AMA. The Company is proposing this new tariff to accommodate this customer. Based on the aforementioned rates, the customer will pay about double to receive non-potable well water instead of non-potable CAP water.

### **III. Revenue and Cost**

The Company believes that by setting the new tariff rate at the same level as the current non-potable CAP water rate, it will make the new tariff revenue neutral. Staff does not agree. In response to a Staff data request, the Company stated that it expects that one other customer will be interested in the new tariff service but states that current consumption will not go up and will go down over time as effluent becomes available. Staff believes the new tariff could possibly affect revenues but the following cost analysis (and Staff's recommendations) should limit any material change to revenues.

In response to a Staff data request, the Company estimated its costs to supply non-potable CAP water totaled approximately \$0.83 per thousand gallons which left the Company only a slight profit. Further, the Company estimated that its costs to supply non-potable well water will total approximately \$1.00 per thousand gallons. Staff did verify that the estimated costs appeared to be reasonable. This means that the Company intends to sell non-potable water at a loss.

Staff believes that since the Company will take a loss on providing this particular service, that it be limited to the one current customer taking non-potable water. Staff will recommend that no other customer be allowed this tariffed service without first being specifically approved by the Commission. Staff will also recommend that the Company obtain the Commission's approval to provide any other customer non-potable water service 60 days prior to commencing that service. These restrictions could be lifted after the Company's next full rate case where the actual costs can be considered along with the appropriate rate adjustments.

### **IV. Conclusions and Recommendations**

Staff concludes that approval of the new non-potable water tariff is appropriate.

Staff recommends approval of the new non-potable water tariff to include a monthly minimum charge based on meter size, a commodity charge of \$0.84 per thousand gallons or \$273.71 per acre foot, a CAGR fee, and other applicable taxes and assessments to be effective October 1, 2012.

THE COMMISSION

August 27, 2012

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Staff further recommends that this tariff apply only to the one current non-potable water customer being served by the Company.

Staff further recommends that the Company obtain the Commission's approval to provide any other customer non-potable water service 60 days prior to commencing that service.

Staff further recommends that the Company notify its one current non-potable water customer of this tariff approved herein by October 1, 2012.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form the name 'Steven M. Olea'.

Steven M. Olea  
Director  
Utilities Division

SMO:DWC:sms/RRM

ORIGINATOR: Darron W. Carlson

1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2           GARY PIERCE  
3               Chairman  
4           BOB STUMP  
5               Commissioner  
6           PAUL NEWMAN  
7               Commissioner  
8           SANDRA D. KENNEDY  
9               Commissioner  
10          BRENDA BURNS  
11               Commissioner

12  
13 IN THE MATTER OF THE APPLICATION )  
14 OF JOHNSON UTILITIES, L.L.C., DBA )  
15 JOHNSON UTILITIES COMPANY FOR )  
16 APPROVAL OF A NEW NON-POTABLE )  
17 WATER TARIFF )

DOCKET NO. WS-02987A-12-0350

DECISION NO. \_\_\_\_\_

ORDER

18  
19 Open Meeting  
20 September 19-20, 2012  
21 Phoenix, Arizona

22 BY THE COMMISSION:

23 **Introduction**

24           1.     Johnson Utilities, L.L.C., dba Johnson Utilities Company ("Company") filed an  
25 application on August 2, 2012, with the Arizona Corporation Commission ("Commission")  
26 requesting approval of a new non-potable water tariff. The new tariff will enable the Company to  
27 provide non-potable water service in limited areas within its certificated area. The general  
28 limitations are: i) the Company has an operating non-potable water well in reasonable proximity to  
the customer's requested point of delivery, ii) the Company has legal access to install the facilities  
necessary to convey non-potable water from the withdrawal well to the point of delivery, and iii)  
the Company has sufficient available and uncommitted capacity in the withdrawal well to deliver  
the requested non-potable water to the customer.

          2.     The proposed charges will include the monthly minimum charge based on the meter  
size, plus a commodity charge that will be \$0.84 per thousand gallons or \$273.71 per acre foot,

...

plus a Central Arizona Groundwater Replenishment District ("CAGR") tax assessment per thousand gallons, and other applicable taxes and assessments.

3. The Company's current CAGR fees are \$0.84 per thousand gallons in the Phoenix Active Management Area ("AMA") and \$0.21 per thousand gallons in the Pinal AMA. The Company makes an annual filing with the Commission to update the CAGR fee. Staff estimates that the next increase adjustment (due in October 2012) should be about ten percent higher.

#### **Background**

4. The Company had been purchasing non-potable excess Central Arizona Project ("CAP") water and offering it for sale under its current Non-Potable CAP Water Service Tariff. The Company has already taken its entire excess non-potable CAP water allotment for the year and the CAP has advised the Company that it will no longer offer excess CAP water for sale after December 31, 2012. This current tariff commodity rate is \$0.84 per thousand gallons, but there is no CAGR fee chargeable as the water is not drawn from wells.

5. The Company has only one customer currently taking service under the non-potable CAP water service tariff. It is a non-profit homeowners' association located in the Phoenix AMA. The Company is proposing this new tariff to accommodate this customer. Based on the aforementioned rates, the customer will pay about double to receive the non-potable well water instead of non-potable CAP water.

#### **Revenue and Cost**

6. The Company believes that by setting the new tariff rate at the same level as the current non-potable CAP water rate, it will make the new tariff revenue neutral. Staff does not agree. In response to a Staff data request, the Company stated that it expects that one other customer will be interested in the new tariff service but states that current consumption will not go up and will go down over time as effluent becomes available. Staff believes the new tariff could possibly affect revenues but the following cost analysis (and Staff's recommendations) should limit any material change to revenues.

7. In response to a Staff data request, the Company estimated its costs to supply non-potable CAP water totaled approximately \$0.83 per thousand gallons which left the Company only

1 a slight profit. Further, the Company estimated that its costs to supply non-potable well water will  
2 total approximately \$1.00 per thousand gallons. Staff did verify that the estimated costs appeared  
3 to be reasonable. This means that the Company intends to sell non-potable water at a loss.

4 8. Staff believes that since the Company will take a loss on providing this particular  
5 service, that it be limited to the one current customer taking non-potable water. Staff recommends  
6 that no other customer be allowed this tarified service without first being specifically approved by  
7 the Commission.

8 9. Staff also recommends that the Company obtain the Commission's approval to  
9 provide any other customer non-potable water service 60 days prior to commencing that service.

10 10. These restrictions could be lifted after the Company's next full rate case where the  
11 actual costs can be considered along with the appropriate rate adjustments.

12 CONCLUSIONS OF LAW

13 1. The Company is a public water service corporation within the meaning of Article  
14 XV of the Arizona Constitution and A.R.S. § 40-250.

15 2. The Commission has jurisdiction over the Company and of the subject matter of the  
16 application.

17 3. Approval of a new non-potable water tariff is consistent with the Commission's  
18 authority under the Arizona Constitution, Arizona statutes, and applicable case law.

19 4. It is in the public interest to approve the Company's request for a new non-potable  
20 water tariff as discussed herein.

21 ORDER

22 IT IS THEREFORE ORDERED that the application by Johnson Utilities Company for  
23 approval of a new non-potable water tariff is approved as discussed herein.

24 IT IS FURTHER ORDERED that Johnson Utilities Company shall file a new non-potable  
25 water tariff showing a monthly minimum charge based on meter size and a commodity charge of  
26 \$0.84 per thousand gallons plus other applicable taxes and fees effective October 1, 2012.

27 IT IS FURTHER ORDERED that this tariff applies only to the one current non-potable  
28 water customer being served by Johnson Utilities Company.

1 IT IS FURTHER ORDERED that, Johnson Utilities Company obtain the Commission's  
2 approval to provide any other customer non-potable water service 60 days prior to commencing  
3 that service.

4 IT IS FURTHER ORDERED that, Johnson Utilities Company notify its one current non-  
5 potable water customer of this tariff approved herein by October 1, 2012.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7  
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9  
10 CHAIRMAN

COMMISSIONER

11  
12  
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14  
15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
16 Executive Director of the Arizona Corporation Commission,  
17 have hereunto, set my hand and caused the official seal of  
18 this Commission to be affixed at the Capitol, in the City of  
19 Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

20 \_\_\_\_\_  
21 ERNEST G. JOHNSON  
22 EXECUTIVE DIRECTOR

23 DISSENT: \_\_\_\_\_

24 DISSENT: \_\_\_\_\_

25 SMO:DWC:sms\RRM  
26  
27  
28

1 SERVICE LIST FOR: Johnson Utilities Company  
2 DOCKET NO. WS-02987A-12-0350

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